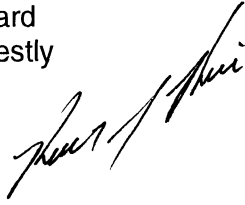


Memorandum

To : Honorable John Chiang, Chair
Honorable Claude Parrish, Vice Chairman
Ms. Betty T. Yee, Acting Member
Honorable Bill Leonard
Honorable Steve Westly

Date : December 1, 2005

From : Ramon J. Hirsig
Executive Director



Subject : ***Executive Director Report – December 13, 2005***
Report on November Multistate Tax Commission Fall Meetings

Board personnel participated in the Multistate Tax Commission's Fall Program and Executive Committee meetings, held November 6-10, 2005. Selvi Stanislaus, Acting Assistant Chief Counsel, attended the Fall Program portion of the meetings November 6-8. I participated in the Executive Committee meeting of November 10.

During the meetings, no votes committing California to any particular course of action were taken. Discussions were held regarding affiliate nexus, certain federal legislation affecting states, funding an MTC program to discover abusive tax shelters, and the work MTC committees have been performing on various matters. You will be provided with a copy of the meeting minutes as soon as they are finalized for distribution.

I believe the Board of Equalization's participation in these meetings was particularly valuable for the ability to interact and network with other state Tax Administrators (TAs). Revenue Commissioners from 18 states participated in the Executive Committee meetings as well as a number of interested parties. Continued participation in MTC meetings will allow us to establish solid working relationships with other states and allow us to leverage their knowledge and experience. Furthermore, continued participation will allow California to take the lead in those areas we determine to be of the greatest importance to our state.

I am continuing to work with the Franchise Tax Board on two documents. First, a memorandum of agreement to formalize a process for sharing information and obtaining input for each agency prior to an MTC vote being cast and, secondly, the matrix of MTC Pending Issues.

I have attached for your review the MTC Financial Statements and Report of Independent Certified Public Accountants for the fiscal years ended June 30, 2004 and 2005.

RJH:rm
Attachment

cc: Ms. Audrey Noda
Mr. Neil Shah
Ms. Sylvia Tang
Ms. Barbara Alby
Ms. Marcy Jo Mandel

**MULTISTATE TAX
COMMISSION**

**Financial Statements and
Report of Independent Certified
Public Accountants**

June 30, 2005 and 2004

LSWG

Linton Shafer Warfield & Garrett, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MULTISTATE TAX COMMISSION
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June 30, 2005 and 2004

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EDWARD T. GARRETT, CPA
KEVIN R. HESSLER, CPA
DONALD C. LINTON, CPA, CFP, PFS
JOSEPH M. MCCATHRAN, CPA
RONALD W. SHAFER, CPA
DOUGLAS C. WARFIELD, CPA, CVA

Report of Independent Certified Public Accountants

Executive Committee
Multistate Tax Commission

We have audited the accompanying balance sheets of Multistate Tax Commission as of June 30, 2005 and 2004 and the related statements of revenue and expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multistate Tax Commission as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Garrett

September 21, 2005

MULTISTATE TAX COMMISSION

LIABILITIES

	<u>2005</u>	<u>2004</u>
Current Liabilities		
Accounts payable	\$ 70,187	\$ 65,664
Payroll taxes withheld and accrued	25,224	26,307
Accrued salaries and vacation pay	236,596	263,909
Current portion of capital lease obligation	6,748	6,176
Deferred assessments and audit reimbursements	397,296	140,881
Total Current Liabilities	<u>736,051</u>	<u>502,937</u>
 Long-Term Liabilities		
Capital lease obligation	<u>6,099</u>	<u>12,847</u>
Total Long-Term Liabilities	<u>6,099</u>	<u>12,847</u>
 TOTAL LIABILITIES	 <u>742,150</u>	 <u>515,784</u>
 Commitments and Contingencies - Note 3		
 Fund Balances		
Unappropriated	786,702	736,436
Appropriated	638,366	732,594
Restricted	<u>237,736</u>	<u>237,463</u>
Total Fund Balances	<u>1,662,804</u>	<u>1,706,493</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 2,404,954</u>	 <u>\$ 2,222,277</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Revenue and Expenses
and Changes in Fund Balance
Unappropriated Funds
For the Years Ended June 30,

	2005	2004
Revenue - Unappropriated and Appropriated		
Assessments	\$ 4,435,340	\$ 4,278,463
Less amounts from restricted funds	(18,000)	(24,000)
Interest	36,045	21,808
Other income		
Training fees	182,002	38,950
Miscellaneous	7,925	13,222
Total Revenue	<u>4,643,312</u>	<u>4,328,443</u>
Expenses - Unappropriated and Appropriated		
Accounting	12,961	12,903
Bonds and insurance	25,527	18,845
Conferences and training schools	127,349	102,603
Professional services	410,703	366,844
Database services	120,000	140,000
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Recruitment	8,811	1,538
Rent	233,343	225,317
Repairs and maintenance	2,940	7,604
Salaries	2,520,232	2,486,798
Software licenses	42,555	60,331
Staff training	26,200	9,723
Subscriptions, publications, dues	40,819	28,322
Telephone	65,150	83,102
Travel	295,728	257,197
Transfer - training and education	(8,800)	(2,200)
Transfer - database services	(140,000)	(150,000)
Allocation of administrative expenses	<u>(158,359)</u>	<u>(179,584)</u>
Total Expenses	<u>\$ 4,705,274</u>	<u>\$ 4,559,060</u>

(continued)

MULTISTATE TAX COMMISSION
Statements of Revenue and Expenses
and Changes in Fund Balance
Unappropriated Funds
For the Years Ended June 30,

	<u>2005</u>	<u>2004</u>
Excess of Revenue Over (Under) Expenses	\$ (61,962)	\$ (230,617)
Transfer from Appropriated Fund Balance	94,228	76,926
Transfer from Restricted Fund Balance	<u>18,000</u>	<u>24,000</u>
Total Amount Transferred	112,228	100,926
 FUND BALANCE - Unappropriated - Beginning of Year	 <u>736,436</u>	 <u>866,127</u>
 FUND BALANCE - Unappropriated - End of Year	 <u><u>\$ 786,702</u></u>	 <u><u>\$ 736,436</u></u>

The accompanying notes are an integral part of these financial statements.

Enterprise Automation Project	Nexus Activities	Nexus Education	Membership Development and Relations	Total
\$ 578,276	\$ 90,000	\$ 50,915	\$ 28,855	\$ 809,520
-	-	-	-	-
(21,272)	-	(43,244)	-	(76,926)
(21,272)	-	(43,244)	-	(76,926)
557,004	90,000	7,671	28,855	732,594
(86,557)	-	(7,671)	-	(94,228)
(86,557)	-	(7,671)	-	(94,228)
<u>\$ 470,447</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 28,855</u>	<u>\$ 638,366</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Changes in Fund Balance
Restricted Funds
For the Years Ended June 30,

	4R Project	Nexus Program	Deregulation	Special Audit	Total
Fund Balance - June 30, 2003	\$ 84,694	\$ 266,788	\$ 51,148	\$ -	\$ 402,630
Revenue	-	733,252	-	100,830	834,082
Expenses	<u>-</u>	<u>837,058</u>	<u>45,450</u>	<u>92,741</u>	<u>975,249</u>
Excess (Deficiency) of Revenue Over Expenses	-	(103,806)	(45,450)	8,089	(141,167)
Transfer to Unappropriated Fund Balance	<u>(24,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,000)</u>
Fund Balance - June 30, 2004	60,694	162,982	5,698	8,089	237,463
Revenue	-	796,320	-	-	796,320
Expenses	<u>-</u>	<u>772,349</u>	<u>5,698</u>	<u>-</u>	<u>778,047</u>
Excess (Deficiency) of Revenue Over Expenses	-	23,971	(5,698)	-	18,273
Transfer to Unappropriated Fund Balance	<u>(18,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,000)</u>
Fund Balance - June 30, 2005	<u>\$ 42,694</u>	<u>\$ 186,953</u>	<u>\$ -</u>	<u>\$ 8,089</u>	<u>\$ 237,736</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION

Statements of Cash Flows For the Years Ended June 30,

	2005	2004
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over (under) expenses	\$ (43,689)	\$ (371,784)
Adjustments to reconcile excess of revenue over (under)		
expenses to net cash provided by (used in) operating activities		
Depreciation and amortization	109,717	106,442
Loss on disposal of property and equipment	13,038	6,052
Changes in assets and liabilities		
Accounts receivable		
Members	27,330	(20,849)
Schools	(31,937)	15,110
Special projects	(9,565)	-
Prepaid expenses	33,976	(27,841)
Deposits	-	(233)
Expense account advances	400	100
Accounts payable	4,523	(1,785)
Payroll taxes withheld and accrued	(1,083)	(1,369)
Accrued salaries and vacation pay	(27,313)	21,355
Deferred assessments and audit reimbursements	256,415	51,305
Net Cash Provided by (Used in) Operating Activities	<u>331,812</u>	<u>(223,497)</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(98,878)	(125,556)
Increase in capital lease	-	20,000
Payments on capital lease	(6,176)	(7,989)
Net Cash Used in Investing Activities	<u>(105,054)</u>	<u>(113,545)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	226,758	(337,042)
Cash and Cash Equivalents - Beginning of Year	<u>1,797,550</u>	<u>2,134,592</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,024,308</u>	<u>\$ 1,797,550</u>
Supplemental Disclosures		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 1,444</u>	<u>\$ 1,906</u>

The accompanying notes are an integral part of these financial statements.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies

The Multistate Tax Commission (the Commission) was organized in 1967. It was established under the Multistate Tax Compact, which by its terms, became effective August 4, 1967. The basic objective of the 'Compact' and, accordingly, the Commission is to provide solutions and additional facilities for dealing with state taxing problems related to multi-jurisdictional business.

Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Commission considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

All property and equipment is stated at cost and depreciated using straight-line and accelerated methods based upon estimated useful lives as follows:

Leasehold Improvements	5 years
Office Furniture and Equipment	5 to 7 years

Expenditures for maintenance and repairs are charged to the appropriate expense accounts as incurred. Expenditures for renewals or betterments which materially extend the useful lives of assets or increase their productivity are capitalized at cost. The costs and related allowances for depreciation of assets retired or otherwise disposed of are eliminated from the accounts. The resulting gains or losses are included in the determination of excess of revenue over expenses.

Deferred Assessments and Audit Reimbursements

Assessments and audit reimbursements are due from the respective states on July 1st of each year and cover the following twelve-month period. Assessments received prior to July 1st for the following year are unearned and considered deferred income until recognized as revenue in the following year.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

In the opinion of legal counsel, the Commission is exempt from Federal income taxes as well as from other Federal taxes as an organization of a group of States or as an instrumentality of those States. Therefore, no provision has been made in the financial statements for Federal income taxes.

2. Retirement Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of twelve percent of each participating individual's annual salary. To participate in this plan, employees are required to work more than certain pre-determined hourly and monthly levels throughout the plan year. The total pension expense relating to the defined contribution plan for the years ended June 30, 2005 and 2004 was \$345,458 and \$341,750, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., Texas, New York, and Illinois under lease agreements with terms expiring on various dates through December 31, 2009. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

<u>Fiscal Year Ended:</u>	<u>Minimum Annual Payment</u>
2006	\$ 287,219
2007	281,367
2008	172,933
2009	44,395
2010	21,930

The leases include certain escalation charges based on various factors including utility, operating expense and property tax increases from a base year. Rent expense, exclusive of utility charges and real estate taxes, for the years ended June 30, 2005 and 2004 was \$294,644 and \$283,187, respectively.

MULTISTATE TAX COMMISSION

Notes To Financial Statements

June 30, 2005 and 2004

4. Appropriated Fund Balances

The Commission's executive committee authorized the Enterprise Automation fund in the amount of \$73,000 during the year ended June 30, 1997. An additional \$614,298 has been authorized in subsequent years. The purpose of this fund is to provide support, through professional services, for developing enterprise-wide applications for managing the Commission information resources in a manner that enhances its operations.

The Commission's executive committee authorized the Nexus Activities fund in the amount of \$80,000 during the year ended June 30, 1997. An additional net amount of \$20,000 has been authorized in subsequent years. The purpose of this fund is to provide support for Commission nexus activities including, a) research and writing on Constitutional nexus issues and b) a reserve for professional services to support work on potential nexus cases in litigation.

The Commission's executive committee authorized the Membership Development and Relations fund in the amount of \$150,000 during the year ended June 30, 2000. The purpose of this fund is to support efforts aimed at increasing membership.

The Commission's executive committee authorized the Cooperative Audit Study fund in the amount of \$40,000 during the year ended June 30, 2002. The purpose of this fund is to evaluate the expansion of cooperative auditing among states. At July 1, 2003, the remaining balance in the fund was transferred to the State Tax Compliance fund.

The Commission's executive committee authorized the State Tax Compliance fund in the amount of \$23,918 during the year ended June 30, 2004. The purpose of this fund is to support the implementation of the recommendations of the Commission's State Tax Compliance Initiative and the measures to improve state tax compliance by multistate taxpayers as approved by the Executive Committee or Commission.

The Commission's executive committee authorized the Nexus Education fund in the amount of \$100,000 during the year ended June 30, 2002. The purpose of this fund is to educate federal and state policymakers and the public concerning issues and standards of Nexus for state taxation of interstate commerce to advance the goal of preserving the ability of states to tax a fair share of such commerce and for preventing the unwarranted restrictions on state jurisdictional authority.

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Program was established whereby contributions received are restricted to use for supporting education, lobbying and legal expenses related to this property tax project. The purpose of the project is to provide for research activities as well as to seek favorable changes in Federal laws which are related to property tax restrictions of state and local governments.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

5. Restricted Fund Balances (Continued)

During the year ended June 30, 1991, the National Nexus program was established. This program, funded by participating states, aims to encourage and secure taxpayer compliance with current state laws through a centralized taxpayer registration information service, a liability resolution process and information sharing among member states. The contributions received from the participating states are restricted for this purpose.

During the year ended June 30, 1999, the Deregulation project was established. This project provides technical assistance to help states adapt their tax policies to the deregulation of major industries, with an initial focus on electric utility deregulation. The contributions received from the participating states are restricted for this purpose.

6. TaxNet Governmental Communications Corporation (TaxNet)

TaxNet is a separate corporation organized as a public charity and instrumentality of the states for the purpose of establishing, maintaining and administering an electronic communications network to allow subscriber access to tax information and communication with governmental tax offices. The corporation is managed by a board of directors, which includes, in accordance with its bylaws, the Chair, Vice Chair and Executive Director of Multistate Tax Commission.

Among other things, the Commission assisted in the formation of TaxNet by contributing legal services. The Commission continues to assist TaxNet by contributing other legal services. Such services have not been reflected separately in the accompanying financial statements, because such amounts are not material.

7. Deferred Compensation Plan

The Commission offers employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with federal law, participants' deferred compensation under the plan is trusted and thus shielded against the claims of the creditors of the Commission and therefore, not included in these financial statements.

The Commission believes it has no liability for losses under the plan but does have a duty of due care that would be required of an ordinary prudent investor.

Investments are managed by the plan's trustee under twenty seven investment options or a combination thereof. The participants make the choice of the investment option(s).

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

8. Allocation of Administrative Expenses

The administrative costs of providing the various programs and other activities have been allocated among the programs and supporting services, based on total operating costs.

9. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period, and disclosures. Actual results could differ from those estimates.

10. Concentration of Credit Risk

The Commission maintains cash balances in excess of \$100,000 in a bank in the State of Colorado. The Commission is an eligible account holder under Colorado's "Public Deposit Protection Act of 1975". The purpose of the act is to provide protection of public moneys on deposit in state and national banks in Colorado and beyond that provided by the federal deposit insurance corporation and to ensure prompt payment of deposit liabilities to governmental units in the event of default or insolvency of any such banks.

SUPPLEMENTARY INFORMATION

**Report of Independent Certified Public Accountants
on Supplementary Information**

Executive Committee
Multistate Tax Commission

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Multistate Tax Commission for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenses for the year ended June 30, 2005, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Linton Shafer Warfield & Garrett

September 21, 2005

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		Restricted Funds				
Total						
Unappropriated						
and Appropriated						
Nexus	Funds	Deregulation	National	Total	Total	Total
Education			Nexus	Restricted	All	
			Program	Funds	Funds	
\$ -	\$ 12,961	\$ -	\$ -	\$ -	\$ 12,961	
-	25,527	-	-	-	25,527	
-	127,349	-	9,203	9,203	136,552	
7,671	410,703	-	21,446	21,446	432,149	
-	120,000	-	20,000	20,000	140,000	
-	104,286	-	5,431	5,431	109,717	
-	525,199	-	76,056	76,056	601,255	
-	13,847	-	294	294	14,141	
-	51,710	-	4,706	4,706	56,416	
-	-	-	1,040	1,040	1,040	
-	305,377	-	40,081	40,081	345,458	
-	28,582	-	5,180	5,180	33,762	
-	21,941	-	1,309	1,309	23,250	
-	29,173	-	912	912	30,085	
-	8,811	-	-	-	8,811	
-	233,343	-	61,301	61,301	294,644	
-	2,940	-	-	-	2,940	
-	2,520,232	-	332,831	332,831	2,853,063	
-	42,555	-	-	-	42,555	
-	26,200	-	3,946	3,946	30,146	
-	40,819	5,000	13,292	18,292	59,111	
-	65,150	-	9,540	9,540	74,690	
-	295,728	-	15,160	15,160	310,888	
-	(8,800)	-	(7,040)	(7,040)	(15,840)	
-	(140,000)	-	-	-	(140,000)	
-	(158,359)	698	157,661	158,359	-	
\$ 7,671	\$ 4,705,274	\$ 5,698	\$ 772,349	\$ 778,047	\$ 5,483,321	

**MULTISTATE TAX
COMMISSION**

**Financial Statements and
Report of Independent Certified
Public Accountants**

June 30, 2005 and 2004



Linton Shafer Warfield & Garrett, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MULTISTATE TAX COMMISSION

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Report of Independent Certified Public Accountants

Executive Committee
Multistate Tax Commission

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multistate Tax Commission as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Garrett

September 21, 2005

MULTISTATE TAX COMMISSION

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Capital lease obligation	<u>6,099</u>	<u>12,847</u>
Total Long-Term Liabilities	<u>6,099</u>	<u>12,847</u>
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MULTISTATE TAX COMMISSION
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For the Years Ended June 30,

	2005	2004
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Software licenses	42,555	60,331
Staff training	26,200	9,723
Subscriptions, publications, dues	40,819	28,322
Telephone	65,150	83,102
Travel	295,728	257,197
Transfer - training and education	(8,800)	(2,200)
Transfer - database services	(140,000)	(150,000)
Allocation of administrative expenses	<u>(158,359)</u>	<u>(179,584)</u>
Total Expenses	<u>\$ 4,705,274</u>	<u>\$ 4,559,060</u>

(continued)

MULTISTATE TAX COMMISSION
Statements of Revenue and Expenses
and Changes in Fund Balance
Unappropriated Funds
For the Years Ended June 30,

	<u>2005</u>	<u>2004</u>
Excess of Revenue Over (Under) Expenses	\$ (61,962)	\$ (230,617)
Transfer from Appropriated Fund Balance	94,228	76,926
Transfer from Restricted Fund Balance	<u>18,000</u>	<u>24,000</u>
Total Amount Transferred	112,228	100,926
 FUND BALANCE - Unappropriated - Beginning of Year	 <u>736,436</u>	 <u>866,127</u>
 FUND BALANCE - Unappropriated - End of Year	 <u><u>\$ 786,702</u></u>	 <u><u>\$ 736,436</u></u>

The accompanying notes are an integral part of these financial statements.

Enterprise Automation Project	Nexus Activities	Nexus Education	Membership Development and Relations	Total
\$ 578,276	\$ 90,000	\$ 50,915	\$ 28,855	\$ 809,520
-	-	-	-	-
(21,272)	-	(43,244)	-	(76,926)
(21,272)	-	(43,244)	-	(76,926)
557,004	90,000	7,671	28,855	732,594
(86,557)	-	(7,671)	-	(94,228)
(86,557)	-	(7,671)	-	(94,228)
<u>\$ 470,447</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 28,855</u>	<u>\$ 638,366</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Changes in Fund Balance
Restricted Funds
For the Years Ended June 30,

	4R Project	Nexus Program	Deregulation	Special Audit	Total
Fund Balance - June 30, 2003	\$ 84,694	\$ 266,788	\$ 51,148	\$ -	\$ 402,630
Revenue	-	733,252	-	100,830	834,082
Expenses	<u>-</u>	<u>837,058</u>	<u>45,450</u>	<u>92,741</u>	<u>975,249</u>
Excess (Deficiency) of Revenue Over Expenses	-	(103,806)	(45,450)	8,089	(141,167)
Transfer to Unappropriated Fund Balance	<u>(24,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,000)</u>
Fund Balance - June 30, 2004	60,694	162,982	5,698	8,089	237,463
Revenue	-	796,320	-	-	796,320
Expenses	<u>-</u>	<u>772,349</u>	<u>5,698</u>	<u>-</u>	<u>778,047</u>
Excess (Deficiency) of Revenue Over Expenses	-	23,971	(5,698)	-	18,273
Transfer to Unappropriated Fund Balance	<u>(18,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,000)</u>
Fund Balance - June 30, 2005	<u>\$ 42,694</u>	<u>\$ 186,953</u>	<u>\$ -</u>	<u>\$ 8,089</u>	<u>\$ 237,736</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30,

	<u>2005</u>	<u>2004</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over (under) expenses	\$ (43,689)	\$ (371,784)
Adjustments to reconcile excess of revenue over (under)		
expenses to net cash provided by (used in) operating activities		
Depreciation and amortization	109,717	106,442
Loss on disposal of property and equipment	13,038	6,052
Changes in assets and liabilities		
Accounts receivable		
Members	27,330	(20,849)
Schools	(31,937)	15,110
Special projects	(9,565)	-
Prepaid expenses	33,976	(27,841)
Deposits	-	(233)
Expense account advances	400	100
Accounts payable	4,523	(1,785)
Payroll taxes withheld and accrued	(1,083)	(1,369)
Accrued salaries and vacation pay	(27,313)	21,355
Deferred assessments and audit reimbursements	256,415	51,305
Net Cash Provided by (Used in) Operating Activities	<u>331,812</u>	<u>(223,497)</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(98,878)	(125,556)
Increase in capital lease	-	20,000
Payments on capital lease	(6,176)	(7,989)
Net Cash Used in Investing Activities	<u>(105,054)</u>	<u>(113,545)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	226,758	(337,042)
Cash and Cash Equivalents - Beginning of Year	<u>1,797,550</u>	<u>2,134,592</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,024,308</u>	<u>\$ 1,797,550</u>
Supplemental Disclosures		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 1,444</u>	<u>\$ 1,906</u>

The accompanying notes are an integral part of these financial statements.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies

The Multistate Tax Commission (the Commission) was organized in 1967. It was established under the Multistate Tax Compact, which by its terms, became effective August 4, 1967. The basic objective of the 'Compact' and, accordingly, the Commission is to provide solutions and additional facilities for dealing with state taxing problems related to multi-jurisdictional business.

Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Commission considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

All property and equipment is stated at cost and depreciated using straight-line and accelerated methods based upon estimated useful lives as follows:

Leasehold Improvements	5 years
Office Furniture and Equipment	5 to 7 years

Expenditures for maintenance and repairs are charged to the appropriate expense accounts as incurred. Expenditures for renewals or betterments which materially extend the useful lives of assets or increase their productivity are capitalized at cost. The costs and related allowances for depreciation of assets retired or otherwise disposed of are eliminated from the accounts. The resulting gains or losses are included in the determination of excess of revenue over expenses.

Deferred Assessments and Audit Reimbursements

Assessments and audit reimbursements are due from the respective states on July 1st of each year and cover the following twelve-month period. Assessments received prior to July 1st for the following year are unearned and considered deferred income until recognized as revenue in the following year.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

In the opinion of legal counsel, the Commission is exempt from Federal income taxes as well as from other Federal taxes as an organization of a group of States or as an instrumentality of those States. Therefore, no provision has been made in the financial statements for Federal income taxes.

2. Retirement Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of twelve percent of each participating individual's annual salary. To participate in this plan, employees are required to work more than certain pre-determined hourly and monthly levels throughout the plan year. The total pension expense relating to the defined contribution plan for the years ended June 30, 2005 and 2004 was \$345,458 and \$341,750, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., Texas, New York, and Illinois under lease agreements with terms expiring on various dates through December 31, 2009. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

<u>Fiscal Year Ended:</u>	<u>Minimum Annual Payment</u>
2006	\$ 287,219
2007	281,367
2008	172,933
2009	44,395
2010	21,930

The leases include certain escalation charges based on various factors including utility, operating expense and property tax increases from a base year. Rent expense, exclusive of utility charges and real estate taxes, for the years ended June 30, 2005 and 2004 was \$294,644 and \$283,187, respectively.

MULTISTATE TAX COMMISSION

Notes To Financial Statements

June 30, 2005 and 2004

4. Appropriated Fund Balances

The Commission's executive committee authorized the Enterprise Automation fund in the amount of \$73,000 during the year ended June 30, 1997. An additional \$614,298 has been authorized in subsequent years. The purpose of this fund is to provide support, through professional services, for developing enterprise-wide applications for managing the Commission information resources in a manner that enhances its operations.

The Commission's executive committee authorized the Nexus Activities fund in the amount of \$80,000 during the year ended June 30, 1997. An additional net amount of \$20,000 has been authorized in subsequent years. The purpose of this fund is to provide support for Commission nexus activities including, a) research and writing on Constitutional nexus issues and b) a reserve for professional services to support work on potential nexus cases in litigation.

The Commission's executive committee authorized the Membership Development and Relations fund in the amount of \$150,000 during the year ended June 30, 2000. The purpose of this fund is to support efforts aimed at increasing membership.

The Commission's executive committee authorized the Cooperative Audit Study fund in the amount of \$40,000 during the year ended June 30, 2002. The purpose of this fund is to evaluate the expansion of cooperative auditing among states. At July 1, 2003, the remaining balance in the fund was transferred to the State Tax Compliance fund.

The Commission's executive committee authorized the State Tax Compliance fund in the amount of \$23,918 during the year ended June 30, 2004. The purpose of this fund is to support the implementation of the recommendations of the Commission's State Tax Compliance Initiative and the measures to improve state tax compliance by multistate taxpayers as approved by the Executive Committee or Commission.

The Commission's executive committee authorized the Nexus Education fund in the amount of \$100,000 during the year ended June 30, 2002. The purpose of this fund is to educate federal and state policymakers and the public concerning issues and standards of Nexus for state taxation of interstate commerce to advance the goal of preserving the ability of states to tax a fair share of such commerce and for preventing the unwarranted restrictions on state jurisdictional authority.

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Program was established whereby contributions received are restricted to use for supporting education, lobbying and legal expenses related to this property tax project. The purpose of the project is to provide for research activities as well as to seek favorable changes in Federal laws which are related to property tax restrictions of state and local governments.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

5. Restricted Fund Balances (Continued)

During the year ended June 30, 1991, the National Nexus program was established. This program, funded by participating states, aims to encourage and secure taxpayer compliance with current state laws through a centralized taxpayer registration information service, a liability resolution process and information sharing among member states. The contributions received from the participating states are restricted for this purpose.

During the year ended June 30, 1999, the Deregulation project was established. This project provides technical assistance to help states adapt their tax policies to the deregulation of major industries, with an initial focus on electric utility deregulation. The contributions received from the participating states are restricted for this purpose.

6. TaxNet Governmental Communications Corporation (TaxNet)

TaxNet is a separate corporation organized as a public charity and instrumentality of the states for the purpose of establishing, maintaining and administering an electronic communications network to allow subscriber access to tax information and communication with governmental tax offices. The corporation is managed by a board of directors, which includes, in accordance with its bylaws, the Chair, Vice Chair and Executive Director of Multistate Tax Commission.

Among other things, the Commission assisted in the formation of TaxNet by contributing legal services. The Commission continues to assist TaxNet by contributing other legal services. Such services have not been reflected separately in the accompanying financial statements, because such amounts are not material.

7. Deferred Compensation Plan

The Commission offers employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with federal law, participants' deferred compensation under the plan is trustee and thus shielded against the claims of the creditors of the Commission and therefore, not included in these financial statements.

The Commission believes it has no liability for losses under the plan but does have a duty of due care that would be required of an ordinary prudent investor.

Investments are managed by the plan's trustee under twenty seven investment options or a combination thereof. The participants make the choice of the investment option(s).

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

8. Allocation of Administrative Expenses

The administrative costs of providing the various programs and other activities have been allocated among the programs and supporting services, based on total operating costs.

9. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period, and disclosures. Actual results could differ from those estimates.

10. Concentration of Credit Risk

The Commission maintains cash balances in excess of \$100,000 in a bank in the State of Colorado. The Commission is an eligible account holder under Colorado's "Public Deposit Protection Act of 1975". The purpose of the act is to provide protection of public moneys on deposit in state and national banks in Colorado and beyond that provided by the federal deposit insurance corporation and to ensure prompt payment of deposit liabilities to governmental units in the event of default or insolvency of any such banks.

SUPPLEMENTARY INFORMATION

**Report of Independent Certified Public Accountants
on Supplementary Information**

Executive Committee
Multistate Tax Commission

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Multistate Tax Commission for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenses for the year ended June 30, 2005, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Linton Shafer Warfield & Garrett

September 21, 2005

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			Restricted Funds			
Nexus Education	Total Unappropriated and Appropriated Funds		Deregulation	National Nexus Program	Total Restricted Funds	Total All Funds
\$ -	\$	12,961	\$ -	\$ -	\$ -	\$ 12,961
-		25,527	-	-	-	25,527
-		127,349	-	9,203	9,203	136,552
7,671		410,703	-	21,446	21,446	432,149
-		120,000	-	20,000	20,000	140,000
-		104,286	-	5,431	5,431	109,717
-		525,199	-	76,056	76,056	601,255
-		13,847	-	294	294	14,141
-		51,710	-	4,706	4,706	56,416
-		-	-	1,040	1,040	1,040
-		305,377	-	40,081	40,081	345,458
-		28,582	-	5,180	5,180	33,762
-		21,941	-	1,309	1,309	23,250
-		29,173	-	912	912	30,085
-		8,811	-	-	-	8,811
-		233,343	-	61,301	61,301	294,644
-		2,940	-	-	-	2,940
-		2,520,232	-	332,831	332,831	2,853,063
-		42,555	-	-	-	42,555
-		26,200	-	3,946	3,946	30,146
-		40,819	5,000	13,292	18,292	59,111
-		65,150	-	9,540	9,540	74,690
-		295,728	-	15,160	15,160	310,888
-		(8,800)	-	(7,040)	(7,040)	(15,840)
-		(140,000)	-	-	-	(140,000)
-		(158,359)	698	157,661	158,359	-
\$ 7,671	\$	4,705,274	\$ 5,698	\$ 772,349	\$ 778,047	\$ 5,483,321